UTAH STATE LEGISLATURE

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MEMORANDUM

TO: The Medicaid Interim Committee
FROM: Mark D. Andrews, Policy Analyst
DATE: January 5, 2007
SUBJECT: Policy Decisions Related to Adoption of a Medicaid Spending Limit

At the last meeting of the Medicaid Interim Committee, several members expressed interest in limiting the growth in Medicaid General Fund spending to particular targets. Targets could be established in various ways. This memo identifies several major policy questions related to the possible establishment of a Medicaid spending limit.

1. **BASIS** — *How Would the Limit Be Determined?*
   a. Would it be static or variable?
   b. Would it be tied to an index?
      i. Non-Medicaid health care spending?
      ii. General Fund growth?
   c. Would it include adjustments for various factors?
      i. Medical inflation?
      ii. Medicaid enrollment?
      iii. Other Medicaid-specific factors?
      iv. Lags in data availability?
      v. Spending below the cap?
      vi. Spending above the cap?
      vii. Would any below-the-cap/above-the-cap carry forwards simply affect future-year limit calculations or would they also be posted to an account?
   d. What period would be used to calculate the limit?
      i. Moving period?
      ii. Fixed base year?
      iii. A period including future year estimates?
   e. Would there be exceptions?
      i. For federal changes in eligibility, benefits, or matching rates?
      ii. For extraordinary economic conditions?

2. **PERIOD** — *To What Period Would the Limit Apply?*
   a. A single year?
   b. A multi-year period? (e.g., 15-yr. average annual rate of growth = 10%)

3. **IMPLEMENTATION** — *Would the Limit Be Phased In?*

4. **PROGRAM RESPONSE** — *What Process Would Be Used to Adjust the Program to Stay Within Established Limits?*
   a. The ordinary year-to-year budgeting process?
   b. A strategic, long-term prioritization of program eligibility, services, and systemic changes?

FIRST EXAMPLE:
Effects of a Hypothetical Medicaid Spending Limit On Medicaid General Fund Expenditures, FY 91 -- FY 07[1]

(Based on a uniform multi-year General Fund limit of 10.9%)

Figure 1

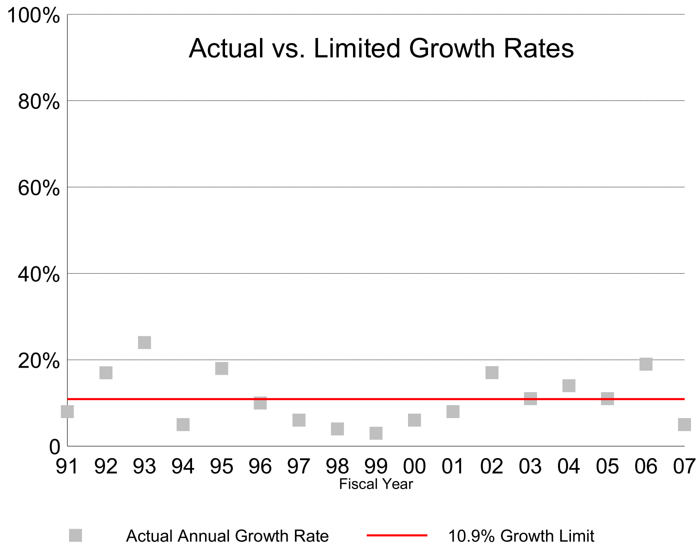

Figure 2

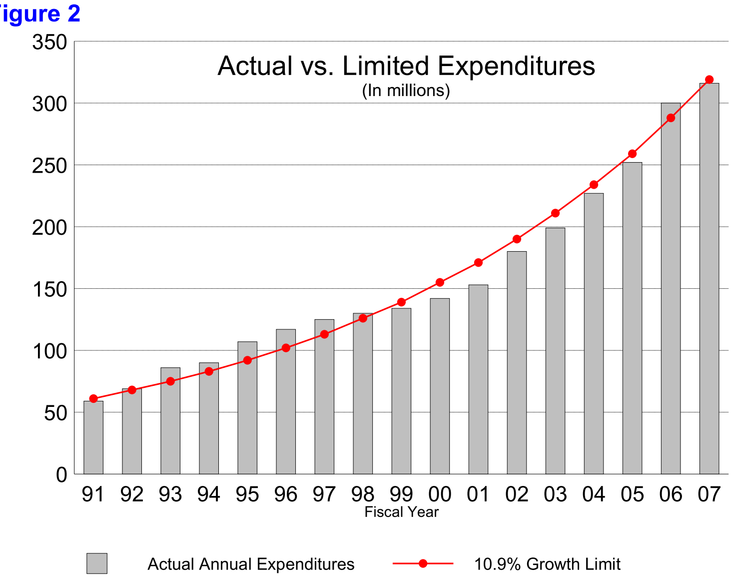

Figure 3

Actual vs. Limited Expenditures and Growth Rates, and Accrual of Differences
(In Millions)

	Expenditures		Growth Rate		Hypothetical Limit of 10.9% Minus Actual Expenditures	
	Actual	Limit	Actual	Limit	Annual	Cumulative
FY 90	55	55				
FY 91	59	61	8%	10.9%	2	2
FY 92	69	68	17%	10.9%	(2)	(0)
FY 93	86	75	24%	10.9%	(11)	(11)
FY 94	90	83	5%	10.9%	(7)	(18)
FY 95	107	92	18%	10.9%	(15)	(33)
FY 96	117	102	10%	10.9%	(15)	(48)
FY 97	125	113	6%	10.9%	(11)	(60)
FY 98	130	126	4%	10.9%	(4)	(64)
FY 99	134	139	3%	10.9%	6	(58)
FY 00	142	155	6%	10.9%	13	(45)
FY 01	153	171	8%	10.9%	18	(27)
FY 02	180	190	17%	10.9%	10	(16)
FY 03	199	211	11%	10.9%	12	(5)
FY 04	227	234	14%	10.9%	7	3
FY 05	252	259	11%	10.9%	7	10
FY 06	301	288	19%	10.9%	(13)	(3)
FY 07	316	319	5%	10.9%	3	(0)
TOTAL	2,741	2,741				

Some figures do not sum due to rounding

Source: Office of Legislative Research and General Counsel, 1/5/07. Actual expenditure data from annual budget summaries, Utah Governor's Office of Planning and Budget. General Fund expenditures only. Excludes Health Care Financing. FY 07 is the appropriated amount.

[1]Notes:

1) The growth limit used here is actually 10.9040%, the rate at which the FY 90 appropriation would had to have been compounded annually to ensure that total program spending over the 17 year period FY 91 -- FY 07 did not exceed actual expenditures. Under this limit, expenditures in FY 07 also would have been essentially the same as actual expenditures for that year ($319 M vs. $316 M --- less than a 1% difference).

2) However, as Figure 1 illustrates, actual annual growth rates differed significantly from 10.9040% . Had the limit been in place, program spending could have been adjusted from year to year in one of several ways, depending upon the policy of the Legislature, including:
a) the timing of expenditures could have been changed to meet the annual limit targets (however, due to enrollment, inflation, and utilization patterns this likely would not have been possible without real reductions in program eligibility or benefits, or other program changes);
b) expenditures could have been allowed to exceed the limit in high demand years with the understanding that they would be offset by equivalent reductions below the limit in low demand years (This accrual of differences between the limit and program demand could have been handled by either year-to-year adjustments to the limit calculation or posting to an account; however, for the limit to be meaningful, the differences would had to have balanced by a particular year, e.g., FY 07. Figure 3 shows the differences that would have accrued from year to year had program spending been at the actual expenditure levels under the limit.); and
c) differences between the limit and actual expenditures in years when expenditures were below, but not above, the limit could have been accrued for future use (again, this would have created a need to change the timing of some expenditures and probably would not have been possible without real reductions in program eligibility or benefits, or other program changes).

3) The average annual rate of growth (AARG) in actual expenditures for the period FY 90 --FY 07 is 10.8443%, slightly lower than the rate used in this illustration. The AARG does not account for a) the impact of carrying forward positive and negative differences between the amounts allowed under the limit and actual expenditures; and b) the particular rate at which any given year grows in between the beginning and ending years.

4) A lower limit for the period FY 91 -- FY 07 would have reduced the instances where actual expenditures were below the limit and increased the likelihood of real reductions in eligibility or benefits or other program changes.

5) Figure 4 on the next page illustrates the impact a 10-year uniform limit could have had on expenditures for the period FY 98 -- FY 07.

6) Other types of limits are possible, including a limit that would vary from year to year.

7) All figures are in nominal, not inflation-adjusted, dollars.

8) The purpose of this illustration is to highlight the variability of historical growth rates in Medicaid General Fund expenditures and the impact various limit policies might have on expenditures. This analysis is not intended to be comprehensive and should not be construed as a recommendation that a limit should be adopted or that one type of limit would be desirable over another.

SECOND EXAMPLE:
Effects of a Hypothetical Medicaid Spending Limit On Medicaid General Fund Expenditures, FY 98 -- FY 07[2]

(Based on a uniform multi-year General Fund limit of 8.728%)

Figure 4

Actual vs. Limited Expenditures and Growth Rates, and Accrual of Differences (in millions)

(In Millions)

	Expenditures		Growth Rate		Hypothetical Limit of 8.728% Minus Actual Expenditures	
	Actual	Limit	Actual	Limit	Annual	Cumulative
FY 90						
FY 91						
FY 92						
FY 93						
FY 94						
FY 95						
FY 96						
FY 97	125	125				
FY 98	130	136	4%	8.728%	5	5
FY 99	134	147	3%	8.728%	14	19
FY 00	142	160	6%	8.728%	19	38
FY 01	153	174	8%	8.728%	21	59
FY 02	180	189	17%	8.728%	10	68
FY 03	199	206	11%	8.728%	7	75
FY 04	227	224	14%	8.728%	(3)	73
FY 05	252	243	11%	8.728%	(9)	64
FY 06	301	265	19%	8.728%	(36)	28
FY 07	316	288	5%	8.728%	(28)	(0)
TOTAL	2,157	2,157				

Some figures do not sum due to rounding

[1]See notes to Figures 1--3.

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Note: This memo was distributed as part of the Medicaid Interim Committee's November 14 report to the Executive Appropriation Committee.

MEMORANDUM

TO: Senator Sheldon L. Killpack
Representative Merlynn T. Newbold
FROM: Mark Andrews, Policy Analyst
DATE: November 14, 2006
SUBJECT: Medicaid Growth Trends

As requested, I am providing a summary of information presented at the Medicaid Interim Committee's November 10, 2006 meeting along with some additional estimates.

THE PAST

Although Medicaid grows at various rates from year to year, the long-term growth rate in General Fund appropriations is 11%. On the other hand, the long-term growth rate in total General Fund appropriations is 5.5%.

Given this difference in growth rates, Medicaid is doubling as a percentage of total General Fund appropriations every 14 years. In FY 91, Medicaid appropriations accounted for 6.6% ($59M) of General Fund appropriations. By FY 07 that figure had more than doubled to 14.5% ($316M).

THE FUTURE

No Change Projected forward at these growth rates, Medicaid will account for 31% ($1,500M) of total General Fund appropriations in FY 22. If these assumptions held in the *very* long term (which is not likely for various reasons), by 2045 (38 years) Medicaid would account for 100% of total General Fund appropriations.

1% Point Reduction If the long-term average annual rate of growth in General Fund appropriations for Medicaid were reduced by one percentage point from 11% to 10%, in FY 22 Medicaid would account for 27% ($1,300M) of total General Fund appropriations and the FY 22 appropriation would be 13% lower than it would be otherwise. This would amount to a total reduction in payments over the period FY 08–22 of as much as ($1,000M).

Medicaid Constant at 14.5% of the General Fund If the long-term average annual rate of growth in General Fund appropriations for Medicaid were reduced by ½ from 11% to 5.5%, in FY 22 Medicaid would still account for 14.5% ($706M) of total General Fund appropriations and the FY 22 appropriation would be 53% lower than it would be otherwise. This would amount to a total reduction in payments over the period FY 08-22 of as much as ($4,600M).